Aavalar Gives You Insight Into TechROI

Calculate Your Return On Investment – Going It Alone versus Working With a Consulting Company

Here's how it works:

Any business that spends money on anything needs to be able to calculate or at least estimate what the Return on Investment is for that expenditure. An often heard refrain from technology companies, IT departments and engineering organizations goes something like this:

> *"Consultants are too expensive – we would rather hire employees."*
>
> And
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> *"We don't want our knowledge walking out the door when the consultant leaves."*

Really? Well, before you buy into this line of thinking you may want to look at some real facts and hard numbers. You're likely to change your mind.

Let's address the second objection first because it is almost laughable: *"We don't want our knowledge walking out the door when the consultant leaves."*

Federal labor statistics, cited in a San Francisco Chronicle article by Ilana DeBare, indicate that "25- to 34-year-olds have held their current jobs for a median of 2.7 years, down from three years in 1983." More recent statistics indicate that the average tenure may be more like 1.5 years. In any case, the average has trended down over the past 20 to 30 years.

Here's the irony of the objection. Once a full-time employee leaves a firm, they rarely come back. So that loss of knowledge and in some cases intellectual property, the "brain drain," is for all intents and purposes permanent. In contrast, when a consultant is finished with an assignment, the client can almost always bring them back, even if it's on a part time or short term basis. After all, that's what consultants do. They provide service to clients in much the same way as a doctor tends to patients when they need help.

Now back to the first objection: "Consultants are too expensive -- we would rather hire employees."

Perhaps the easiest way to compare consultants to full time employees is to ask three key questions:

- What does it cost to get the resources?
- What does it cost to keep the resources?
- What does it cost if a company doesn't have resources or worse yet has the wrong resources?

1. What Does it cost to get the resources?

Research from the Corporate Leadership Council shows that the average cost-per-hire is 45% of the new employee's first-year salary. For instance, hiring a software engineer with an $80,000 starting salary would incur additional costs of about $36,000.

These costs include, but are not limited to, the following:

- Analyzing and writing job descriptions
- Advertising
- Cataloging, reviewing and assessing resumes
- Conducting phone interviews
- Conducting in-person interviews
- Technical testing
- Background and reference checking
- Other documentation and communication with rejected candidates

So this means that the $80,000 software engineer actually costs the hiring company about $116,000 for the first year of employment.

Let's add a little anecdotal evidence into the mix.

A client company recently expressed an urgent need for an expert software engineering consultant to work on an upcoming project. This consultant needed to have a very precise background, expertise and domain experience, plus the right cultural fit for the company's workplace environment. This company emphasized that they needed to find the right consultant, and that they needed to find him or her quickly and cost-effectively. They refused to waste time, money and energy by hiring a candidate that was not the right fit and/or didn't have the specific skills they needed. So they partnered up with Aavalar.

Within 10 business days, Aavalar provided this client with three expert developers who each fit the requirements and were available to start immediately.

To find those three expert IT consultants, Aavalar performed the following steps:

- Combed through its proprietary database of 80,000+ (mostly local) candidates, which was developed over 13 years of successfully working in the IT and Computer Engineering space.
- Advertised on various commercial job sites, such as Dice, Monster, CareerBuilder, LinkedIn, etc. – some of which cost more than $20,000 per year for a membership
- Connected and Networked with various special interest groups and establishing rapport with IT experts – many of whom are difficult to find because they don't "post" their resumes
- Attended networking events and job fairs to meet prospects face-to-face
- Sought referrals from current and past clients and consultants – a very time-consuming process

The client set up in-person meetings with the three front-runners that Aavalar presented and chose the best one for their upcoming project. They got what they needed and the project kicked off less than one month from the day they issued their request to Aavalar.

In raw numbers, here's what the process looks like, on average, start to finish, to get a new technical resource up and running. **Based on 2011 statistics**

It takes:
- 129 emails to potential candidates
- 525 phone calls and emails to potential candidates

To get:
- 24.8 keyword-matched resumes of candidates who are available and willing to be hired

It then takes:
- 12.1 phone and in-person interviews

To get:
- 1 consultant hired and working on a project

Total man-hours for the process = 208 hours

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You're probably thinking, "Wait a minute… There's no way you could spend 208 man-hours in two weeks just to put one consultant on a project or get one candidate hired!" And you're right! You also just stumbled upon **Aavalar's value proposition.**

- Aavalar has a team of people who handle multiple yet similar requirements at once.
- Much of the work is done before the client ever reaches out to Aavalar. In other words, Aavalar builds a pipeline of resources "on spec," which allows for quick response when a client has a need.

In short… One or two technical managers, with dozens of day-to-day responsibilities, cannot possibly do what Aavalar's consulting experts accomplish in that short time frame.

And now, back to the client.

When Aavalar shared with them the amount of man-hours and effort, as well as the many different sources used to uncover this talent, they realized it would have cost them even more in both hard dollars management time and delays, even IF they were successful. The bottom line is that they agreed it was far less expensive to get the right resource efficiently and timely through Aavalar than to go it alone.

To quantify the costs, let's first assume that the labor cost of a technical manager is $100/hr.

If that manger had 208 working hours (5+ weeks) to work exclusively on finding just one specialist – which is an unrealistic timeframe, of course – it would cost the company approximately $20,800 for the manager's time alone.

So the costs of going it alone look something like this:

$20,800 for the manager + Subscriptions to Monster, Career Builder and LinkedIn + Lost opportunity costs + Background and reference checks + Benefits + … + … +

When you add it all up, the conclusion is pretty clear – Stick to what you do well and let Aavalar do the heavy lifting.

2. What does it cost to keep the resources?

Let's use the aforementioned example of the software engineer who makes $80,000 per year, and add to that the following costs:

- Employer-paid tax burden, payroll processing, etc. add up to about 12% of salary, which is $9,600/year
- Major medical insurance, dental insurance, disability, life insurance, etc. comes out to approximately $5,400/year
- Training costs $2,000+
- 401(k) contributions, paid holidays, vacation, etc. are usually about 3% of salary, or $2,400/year

So a pretty conservative estimate of additional costs for the first year, on top of an employee's direct labor rate, is $19,400.

Remember that the cost to hire this individual was $36,000. Add to that the $19,400 in employer-paid burden and the $80,000 in salary. The grand total to hire and employ an $80,000-salary individual for the first year is $135,400.

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However, on a contract basis, it becomes a very different situation. Typically, an $80,000-salary IT or engineering professional would cost about $66 per hour on a contract basis. Using an average of 1,920 hours per year – based on 10 unpaid holidays and 10 unpaid vacation days – that a consultant might work in a year, the grand total to hire and employ a consultant for a year (in this particular example) is $126,720.

To summarize, this analysis shows a <u>savings of $8,680</u> for the first year if a consultant is used in lieu of a full-time employee!

Another important note: A typical consulting requirement is filled within two weeks, while the times it takes to place a full-time employee often takes more than two months.

3. What does it cost if a company does not have resources or, worse yet, has the wrong resources?

Now that we've compared the costs of hiring a full-time employee versus using a consultant, we're left with an interesting question: What does it cost a company if it cannot find the right resources? The answer is… it depends.

Consider the following questions:

- What would it cost your company if your customer web portal broke and your clients couldn't place orders?
- What would it cost your company if your database was poorly designed and transactional systems ground to a halt?
- What would it cost your company if your network and internal systems got hacked, compromising the security of personal, financial and possibly medical information?
- What would it cost your company if there was a botched attempt to replicate a storage area network, bringing down a global, customer-facing system?
- What would it cost if the control systems in a state of the art passenger plane failed?
- What would it cost your company to miss the market on a new product or a major software release after it was already announced to Wall Street?

You get the point. Fill in the blanks or think up your own scenario. In any case, the number is probably a big one. This is the true return on investment – TechROI™.

The systems, products and services that your company provides are only as good as the technical experts who create them. Therefore, the ROI could be many, many times the cost of the people that your company employs.

The moral of the story is that you better get the right technical expertise sooner rather than later.

To learn more about Aavalar Consulting's dedication to finding that perfect consultant for your company with the right skills and the best fit, visit Aavalar online or call 610.889.9990 to speak with one of our Resourcing Strategists.